The Effects of Digital Music Streaming on the Revenue Models of Independent Musicians

by

Alexander Jon Autio

A THESIS

submitted to

Oregon State University

Honors College

In partial fulfillment

of the requirements for the

degree of

Honors Baccalaureate of Science in Marketing

(Honors Scholar)

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"The Effects of Digital Music Streaming on the Revenue Models of Independent Musicians" discusses the rise of online music distribution, the current state of the music industry, and specifically, analyzes how online music distribution influences the revenue generation methods and careers of independent musicians. While the issues of music streaming affect all aspects of the music industry, including record labels and signed artists, this project will suggest that those most affected by streaming are independent artists, who make up the majority of the music industry. Streaming platforms, while allowing for easier music distribution for independent artists than ever before, have exacerbated revenue inequality between independent and "superstar" artists, while lessening the revenue from music distribution to the point that artists have been forced to focus on other revenue sources, such as concerts, merchandise, and "crowdfunding" fan donations.

Keywords: music streaming, user centric pay out models, pro rata payout models, digital music distribution, Spotify, Apple Music, independent artists.

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I understand that my project will become part of the permanent collection of Oregon State University, Honors College. My signature below authorizes release of my project to any reader upon request.

Alexander Jon Autio, Author

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The Effects of Digital Music Streaming on the Revenue Models of Independent Musicians

Introduction

In a world where political landmines hide in tweets, and careers are made on YouTube and Instagram, nearly every aspect of modern life has been changed by the Internet. However, few industries have been changed more by technological and social shifts than the music business. Today, seventy-nine percent of millennials (ages 18-34) and seventy-six percent of adults between the ages 35-44 use streaming services to access their music according to 2018 polls by Morning Consult ("Music First Coalition Music Streaming Survey" 2). These streaming services, mainly Spotify and Apple Music, are quickly replacing distribution mediums such as digital download sales or music-piracy. But streaming platforms have not risen without criticism: Taylor Swift, is perhaps the most high profile artist who has feuded with Spotify, refusing to offer her albums on Spotify between the 2014-2017, and stating "I'm not willing to contribute my life's work to an experiment that I don't feel fairly compensates the writers, producers, artists, and creators of this music. And I just don't agree with perpetuating the perception that music has no value and should be free" (Tiffany).

The controversy surrounding streaming platforms is largely built around their pay-out rates to artists: Spotify averages between $0.006 to $0.0084 per stream to music rights holders, and low overall-proportion independent artists such as niche musicians may be making even less per stream (Dimont 691). A recent report by Digital Music News stated that Spotify paid independent artists on average $0.00473 per stream (Sanchez). Publicly, Spotify states that the company does not pay "per stream," but rather uses a complex "pro rata" payout model based on a musician's proportion of total revenue; however a large number of journalists, musicians, and researchers have calculated what artists make “per-stream” by comparing monthly payouts with respective streaming counts. According to the pro rata model, most artists would need around 472,312 streams per month to earn minimum wage using Spotify, requiring a far-larger fan base than many independent musicians have (Sanchez). Thus, while music streaming has been largely adopted by the public, there are consumers use it with some amount of ethical cognitive dissonance.

This research project discusses the rise of online music distribution, the current state of the music industry, and specifically, analyzes how online music distribution effects the revenue generation methods and careers of independent musicians. While the issues of music streaming affect all aspects of the music industry, including record labels and signed artists, this project will suggest that those most affected by streaming are moderately popular independent artists, which make up the majority of the music industry. Streaming platforms, while allowing for easier music distribution for independent artists than ever before, have exacerbated revenue inequality between independent and “superstar” artists, while lessening the revenue from music distribution to the point that artists have been forced to focus on other revenue sources, such as concerts, merchandise, and “crowdfunding” fan donations.

Due to the amount of jargon specific to the music industry, there are many terms to be accurately defined first: these include the music industry as a whole; defined as the collection of artists, record labels, producers, online and physical music distributors, and other industry professionals. Another important term is “independent artists,” music creators not signed with a record label, who create and distribute music independently from traditional record labels, with fan counts usually under one-hundred thousand followers. “Superstar” musicians are signed artists, often with fan counts in excess of one million followers. “Streaming services” are online music sites or mobile phone applications that stream music to consumers for free (revenue from ads) or at a premium ad-free cost. “P2P file sharing” or peer-to-peer file sharing is a form of online piracy where consumers share media content with other peers online, often violating copyright laws in the process. “Crowd funding” is an online method of fan patronage, allowing fans of artists to donate money to help fund albums, tours, or other projects. Crowd funding is a direct consumer-creator industry model, and fans often receive autographed CD’s, merchandise, or other incentives of varying levels for donating. It is also important to define the “value” of music, and how online distribution has affected its value— for instance, artists such as Taylor Swift believe music’s economic or monetary value should be higher than what streaming services pay artists. However, “qualitative” or creative, artistic value, is a separate idea, and streaming’s effect on this variable is not discussed at length in this project.

The significance of the research problem is the fact that music is not only a revenue generating “commodity” but also an art form, and affects not only the industrial, economic sector of the music industry, but also every aspect of an artists’ career, including creative and aesthetic quality of the music, fan relationships, and societies as a whole. In the narrowed focus of independent artists, the effects of digital music distribution are especially great, where artists may have difficulty earning a living wage in a world where most songs can be accessed free online. Smaller independent artists cannot negotiate easily with music distribution giants such as iTunes, Spotify, or YouTube, and many cite unfair reparation or vague and confusing contract agreements. While the music industry is still in a transitional period as it becomes increasingly reliant on online music distribution, the issues and opportunities caused by the online music distribution must be addressed to sustain a truly fair and healthy environment for independent artists and fans.

Background

The History of Digital Music Distribution: Napster, iTunes, and Spotify

While this project focuses more on the after-effects of the transition from physical music commodities (CD, vinyl) to music as a digital streaming service, some context must be laid to fully understand the changes that artists now face to work in the music industry. 1999 marked the financial peak of the music sales revenue and the beginning of the end of the CD as a tangible music product, as total United States sales reached 13.75 billion dollars (“RIAA U.S. Sales Database” 2018). That same year, a 19-year old computer hacker named Shawn Fanning created a peer-to-peer file sharing service for a young Internet called “Napster.” Napster allowed people to upload MP3 music files to a server, and access anyone else’s music as well— essentially, a music pirate’s paradise.

As Napster grew in popularity, record labels sued the company for copyright infringement, and as consumers discovered this tool, the number of music pirating sites quickly increased as well. Even after Napster was driven out of business by lawsuits in 2002, the damage was already done: total U.S. music sales revenue had dropped nearly two billion dollars to 11.9 billion dollars (“RIAA U.S. Sales Database” 2018). The industry did pick up slightly in 2004, when Apple introduced the iTunes store in 2003, which allowed consumers to buy digital MP3 downloads. However, the ability of these sites to allow customers to purchase single songs rather than albums, along with increased music piracy, proved devastating to the music industry. The valley of the decline was in 2014, when United States music sales revenue hit 6.7 billion dollars, nearly half of the revenue in 1999.

After peer-to-peer sharing (Napster) and paid downloads (iTunes), the next step in music's digital evolution was the rise of online streaming, such as Spotify, Pandora, and Apple Music. At first music streaming was an "internet radio," notably Pandora Radio, where listeners could listen to playlists built around genres and artists with a limited number of "skips" in the free version. Then music streaming made a significant shift: in 2008, Spotify was released, and allowed users to access a whole music library and play whatever song the desired, any time they wanted. Now, buying an album, physical or digital, was fully obsolete: it was cheaper and more convenient to pay a monthly subscription to Spotify to access as much music as a listener desired, and even download songs "offline" to their phones for areas without cellular data or access to Wi-Fi.

Analyzing the Digital Music Revolution

The post-physical music era's beginning can be broken down into three main stages: first, "peer-to-peer," the rise of online piracy and peer-to-peer file sharing site like Napster; second, the fairly short-lived "download" era where iTunes was consumers' legal method of choice; and third, the "streaming" current era of online music where music is a more a rentable "service" than a paid commodity, where a Spotify subscription is more akin to Netflix than a record store (Figure 1). Of these eras, both peer-to-peer music sharing (piracy) and online streaming were major disruptors in the music industry because they both drastically changed the price-point consumers pay to access music.

Today, music streaming dominates popular music consumption methods. Spotify is the largest streaming platform, making up thirty-six percent of the market share and currently has eighty-three million paid premium subscribers, followed by Apple Music at nineteen percent (see Figure 2). According to the 2018 report by the International Federation of the Phonographic

Industry, eighty-six percent of music consumers listen to music through online streaming ("Consumer Insight Report 2018" 5). The same study found that thirty-eight percent of music consumers regularly access music through copyright infringement. While piracy is still a problem, the music industry as a whole is rebounding from the difficulty in the early 2000's. Overall U.S. industry revenue in 2018 is at a high with total revenues (including concerts, merchandise, branding deals, etc.) at $43 billion, and U.S. distribution revenue is starting to show promises of recovery, at $9.8 billion ("Putting the Band Back Together" 9). While music distribution revenue is still a fraction of its 1999 peak, overall revenue including concerts and other revenue methods is strong. Much of the industry's current boom is largely due to paid-subscription streaming's success and increases in both concert ticket prices and ticket sales (see Figure 3.1, 3.2). Unfortunately, even in an industry showing positive growth there are still challenges to be faced, especially for independent musicians: streaming payout models from online music streamers inherently favor large record labels and impact independent musicians in a number of ways. The following section provides three major findings regarding how independent artists are affected in both positive and negative aspects by the current state of online music streaming, and then discusses the ethical and practical implications for consumers.

The Implications of Online Music Distribution for Independent Artists

1. Music Streaming Promotes Ease of Entry, Distribution, and Discovery

While in recent years pundits often criticize the low payout per stream and/or the vague explanations of how those payouts are distributed between rights holders, however, the current research suggests that music streaming does present several advantages for independent musicians; and in fact, most willingly place their music on the sites. Streaming sites significantly decrease the costs of reaching large audiences and promote artist discovery through in-service means such as new artist playlists, artist radios, discovery algorithms, and othered featured content. Digital home recording has drastically lowered the costs of music production, and similarly, online music streaming has cut costs in distribution. By paying a small fee to a "music aggregator" middle-entity such as CD Baby or TuneCore, any unknown artist can have their music made available on Spotify, Apple Music, and other sites easily, with the distributor collecting revenue from streamers for the artists. In 2017, CD Baby announced that the company paid out $80.1 million dollars to independent artists, and these figures are expected to increase as more artists use the service (Rys).

Streaming sites benefit when consumers listen to more music— so they work hard to ensure that the listeners are discovering new artists, thus increasing independent artists' chances of growing a fanbase much higher than marketing without streaming services. For instance, Spotify's "Discover Weekly" playlist uses an algorithm to match listeners with artists they might like, effectively using analytics to find listeners for their artists, something an indie artist can't easily do themselves. There is strong evidence that music streaming has fueled large increases in new independent artists and music: according to research by economists Luis Aguiar and Joel Waldfogel, the music industry tripled the number of new songs available between 2000 and 2008, just as online music distribution was taking off (Aguiar & Waldfogel). While record labels still have a large hand in the "superstar" music industry (and receive better streaming cuts than independent artists), the same streaming giants that are criticized for unfair payment structures have effectively removed record labels as the "gatekeepers" of the music world. Today, any musician can record and distribute music with the potential to reach millions, with their songs available in the same online streaming catalogue as Taylor Swift or Justin Bieber. Thus, entry and distribution to a once-closed door industry has been largely democratized with the help of music streaming; however, unfortunately the payment for digital music does not show as positive of outcomes for independent musicians.

2. Music Streaming Provides Unequal Payouts to Independent Artists

In recent years artists and the media have widely publicized the fact that streaming services pay very little money to independent artists per song stream. On average in 2018, Apple music paid $0.00735 per stream, Spotify paid $0.00473 per stream, and Amazon Music paid $0.00402 per song stream (Sanchez). What many consumer don't know is that all major steaming groups use a pro rata payout system to pay artists (Luckerson). Under the pro rata model, all user generated revenue is distributed in proportion to all listening times. Thus, even if a music fan listened to only one artist, that fan's payment to Spotify would be divvied up according to the artists' percentage of total Spotify streams, (split among all artists according to proportion,) and the bulk going towards "superstar" artists who take up a majority of streams. Under the pro rata model, money is distributed in proportion to all streams, thus favoring the star while underpaying the independent artist.

In 2017, Finnish researchers Jari Muikku, working with the Finnish Music Publishers' Association, proposed an alternative payout method called the "user centric model." In this model, payout revenue generated by a fan goes only to the artists that that particular fan listened to. The two payout methods were modeled by Muikku as follows:

$$Pro\ Rata\ Artist\ Payout = \left(\frac{Total\ Streams\ of\ Song}{Total\ Platform\ Streams}\right) * Total\ Platform\ Revenue$$

$$User\ Centric\ Payout = \left(\frac{Total\ Streams\ of\ Song\ by\ Listener\ A}{Total\ Streams\ by\ Listener\ A}\right) * Total\ Revenue\ from\ Listener\ A$$

Muikku's research found that while the User Centric payout model did not drastically hurt the payout rate of popular artists, it did increase payouts to smaller artists, because the model takes into consideration that some fans are only listening to a few artists, and may not be necessarily listening to the top twenty-five "superstars." In short, the User Centric payout is a far more accurate and equitable payout model, because a fan's dollar goes only to artists to which that fan enjoys. The Pro Rata payout model gives an advantage to songs and artists that makes up a large percentage of a given platforms streams.

Commonly, streaming services such as Spotify keep thirty percent of subscription and ad revenue and pay rights holders seventy percent ("More for Few or Fewer for More"). Hypothetically, if Taylor Swift accounted for two percent of all streamed music on Spotify, under Pro Rata payouts, her rights holders would receive two percent of all the seventy percent paid out to artists from Spotify's revenue. In contrast, the User Centric model gives niche artists a strong benefit: hypothetically, if a niche indie jazz artist has only a few listeners per month (less than one hundred), however their fan base is very devoted and mainly listens only to that one band, then all the payout revenues from those listeners would go to only the indie jazz band. Instead of making a few dollars per month for a minuscule percentage of total platform streams, they would make a few hundred dollars because they captured all the revenue that their dedicated fans generated. Unfortunately, the user-centric streaming model is not without its own problems— if stream revenue is split up proportionally by individual listener's habits, artists would make more money if a listener only listened to their music; this encourages less diverse listenership. However even with the current model fans know that their listenership is what provides artist's with streaming revenue, albeit less-impactful under the pro-rata model. In summary, using a user-centric model would give listeners far more control of where their money goes in the music industry.

<u>3. Digital Music Distribution Increases Alternative Revenue Sources</u>

In addition to the effects on artist discovery and music payouts, artists have seen increased changes regarding where the majority of their revenue actually comes from. When industry revenues plummeted during the decline of the CD and the rise of Napster and music piracy, where did artists turn to fill the void? In addition to streaming, today revenue generators such as touring, merchandise, and crowdfunding have all helped taken the place of music's revenue as a commodity. According to a study by Pollstar, average concert ticket prices have grown steadily: in 2008, the average price hovered around sixty dollars, while in 2018, it averaged at eighty-six ("Mid Year Business Analysis" 18). Moreover, musicians are selling more tickets per concert as well, with 7,327 tickets sold on average in 2008, and 8,637 tickets sold on average in 2018 ("Mid Year Business Analysis" 18).

While touring has always been a significant money-maker for artists, today it is more crucial to many artists' business plans than ever. With music streaming's lower payout rates, but great tools for discoverability, artists can effectively distribute their music at little-to-no cost in hopes they create fans that will buy a concert ticket and merchandise. Additionally, most streaming platforms promote artists' concerts on their respective artist pages, making it easier than ever before for fans to connect and find shows to attend. Purchased music, physical or digital (except for vinyl records, interestingly) have been on a steady decline since the year 2000, while both streaming revenues and concert revenues have been on an almost symmetrically inverse rise since the same year ("Putting the Band Back Together"). According to the International Federation of the Phonographic Industry's 2019 global report, physical music sales only account for twenty-five percent of revenue, digital downloads account for twelve percent, and has now surpassed both at thirty-seven percent of all revenue. In 2018 alone, total international music industry download revenue dropped by over twenty percent, and physical revenues, already a small fraction of their past presence, dropped by ten percent, with streaming revenue now accounting for thirty-four percent of all industry revenues (IFPI Global Report 2019").

In addition to streaming and touring, another revenue method increasingly used by independent artists is "crowdfunding," simply defined as "the act of gathering funds for a project from a crowd" (Søttar Hagen 2). In an online crowdfunding campaign, artists will ask for donations from their fanbase to help fund the recordings of albums or capital to go on tour, using sites such as Kickstarter or GoFundMe. Often different donations levels will be promoted by tiered-level perks such as signed merchandise or special concerts. For example, the alternative rock band Pixies' "A Visual History" project campaign that raised $234,450 through crowdfunding (Lewis). One main implication from these transitions in revenue sources (streaming, tours, crowdfunding) is that they all further separate artists from the need for a record label. Crowdfunding is essentially allowing fans to be their own capital investors in the musicians they believe in, allowing independent artists both increased resources and creative freedom, usually mutually exclusive variables in the music industry. It is important to note that despite the changes in revenue structure, artist yearly income has not changed dramatically in recent years, with music-related income averaging at $21,300 per year ("Inaugural Music Industry Research Association Survey of Musicians" 3). Thus, the amount of income is not necessarily changing, but rather the processes of collecting that income.

Consumer Responsibility in the Age of Digital Streaming

Changing How Fans Support Artists

With the information presented in the previous section, there are a number of takeaways for fans and music consumers who want to support independent artists. First, because music is no longer a commodity sold like books, fans will support their favorite artists most when they purchase concert tickets, merchandise, or support them financially through crowdfunding campaigns. While streaming does provide some financial benefit, most of an independent musician's main revenue sources are from direct fan interactions such as going to a concert or purchasing a commemorative vinyl record, especially for musicians with low stream counts. Overall, concerts make up for 43 percent of all U.S. total music industry revenue (Resnikoff). In the old music industry model, musicians toured to promote selling albums— today, music is streamed as a service with lower payouts to reach larger audiences, and these generate more revenues in other areas.

To understand why streaming is not a viable option as a main revenue stream for smaller independent artists, consider the following model: a "coffee-shop" style singer-songwriter artist might have around ten thousand monthly listeners on Spotify. If these fans on average listen to ten songs (or one song ten times) from this artist per month, using Spotify's pro rata average payment-per-stream for independent artists, we can calculate the artist's hypothetical monthly payout:

$$Indie\ Artist\ Monthly\ Streaming\ Payout = \big((Fans *\ Songs\ Listened\ Per\ Month)\big) * Streaming\ Rate$$

$$((10{,}000 * 10)) * \$0.00473 = \$430$$

**Using Spotify's average pay-per-stream according to Seghal, 2018 and Dimont, 2018*

Clearly, while over four-hundred dollars per month is not pocket change, neither is it a living wage. If listeners want to see their artists successfully create music for a living, other sources of revenue, such as concerts, are needed as well. This example uses an artist with ten-thousand monthly listeners; many independent musicians have even smaller, niche fan-bases. Thus, with smaller followings and fanbases, alternative revenue methods are far more important, and a fan's direct support is far more valuable than streaming revenue. In addition to understanding how musicians make revenue in the age of streaming, consumers should also personally consider their ethical stance on “pro rata” streaming payouts and “user centric” streaming payouts. One model strongly favors internationally popular artists which make up a large majority of streams, while the other more accurately pays artists according to individual fan’s listening habits and gives niche artists fairer payouts. If fans begin to use streaming sites that pay with a user centric model or increase pressure streamers such as Spotify to re-structure their payout models, independent artists have the potential to benefit.

Inciting Changes in Consumer Behavior

If independent artists and supporters want to increase consumers’ awareness about these issues and then incite meaningful changes in behavior, unified and specific marketing actions must be implemented. Spotify, music streaming, and the traditional music industry have a huge advantage in that they have “top-of-mind” presence for most music consumers today; while some may have once read an article about low streaming payouts, most of these consumers don’t know just how much their favorite artists make using streaming sites, much less have a desire to change their music consumption habits. Mixed messages, lack of artist unification, and simple apathy regarding these issues have hampered artist activism; even if most artists have a view about streaming, they are rarely vocal about it or feel like they are alone in their problems. Thus, the first step in creating awareness is for artists to create (or leverage a current) artist rights organization where enough data and metrics can be gained to truly show how much Spotify pays artists. For instance, if a non-profit group can get enough artists to share their pay-outs per overall song streams, with enough media coverage this has the potential to generate “consumer outrage” to the point where people feel pressured to behave ethically, as well as remove common myths about the music world, such as, “That artist has 10,000 followers, they must make good money.”

Using a method similar to the to “Health Belief Model” might encourage consumer action. The model includes the following tools to move a consumer from apathy towards activation (Lefebvre 3):

- Perceived susceptibility: communicating how even their favorite musicians may be negatively affected by current streaming payout models
- Perceived severity: communicating the “negative end result” of limited artist payouts
- Perceived benefits: promoting the benefits of increased artist support (more music, better fan engagement, etc.)
- Cues to action: encouraging consumers to buy concert tickets, support changes to streaming payout models, etc.
- Perceived barriers: mitigate barriers (“It isn’t hard or expensive to spend to help fund an album on Kickstarter or see a few more concerts each year.”

Similar to the way medications or social justice issues are marketed, the “end negative threat” has to be communicated clearly: “because of current streaming payout models, artists will suffer by not making a living wage.” Then the path to activation must clearly outlined, all the while illuminating the ease of action and the positive benefits. Using a model like this one is recommended for independent musician marketers and music rights activists when beginning the streaming payout conversation.

Looking Forward: Independent Musicians and Online Streaming

<u>Strategies for Indie Musicians in a Streaming World</u>

There are a myriad of reasons musicians choose to follow a career as an independent musician rather than as a signed artist: creative freedom, complete control over rights and payouts, and the fact that since the Napster bust of the music industry, many labels are far more choosy when signing artists. While signing a record deal is similar to a capital investment, where the record label fronts tours, recording an album, and other costs, they do so because in the long run, they reap far more rewards off the artist than their initial investment. However, choosing to remain independent does mean limited capital as artists self-fund their careers. In the world of online streaming, artists need to be strategic and creative to ensure financial success.

One successful method many artists have employed to increase streaming revenue is “fan leveraged streaming:” where artists mobilize their fan base to stream excessive amounts or use a “work-around.” In 2014, the indie band Vulfpeck beat Spotify at their own game with a creative album of complete silence called “Spleepify;” they then mobilized their fan base to play the album at night, which generated $20,000 dollars of streaming revenue until Spotify removed the album (Jonze). While this was a novel and rare creative way to gain more streaming revenue, artists can employ similar tactics such as asking their fan base to stream their catalogue often, even when not listening to music, with the volume low or on silent.

Another strategy some independent artists have employed is giving up on streaming altogether, opting to self-distribute on a “donation and email” basis. Josh Garrels, an independent musician based out of Portland, Oregon and Muncie, Indiana, supports holding off putting his music on Spotify for at least a month or two when he releases an album: during this time, he makes it available to download for free (with a donation option), in exchange for a fan’s email. In an interview, Garrels promoted the use of Noisetrade, an alternative music site that offers free or donation-based downloads while allowing artists to help build an geo-targeted email list, a valuable commodity when advertising a tour in a local area:

> *"I have an email address and zip code for every person who's downloaded my album from NoiseTrade, so I can easily email these listeners about upcoming shows in their area or trumpet news about new releases on the horizon… Personally, I like Spotify a lot, and I think they're a powerful and valid venue to make an artist's work instantly accessible to the world. Yet, in the future, I would hold off putting a new album on Spotify until a month or two after the release date* (McIntyre).

Overall, independent artists need to build their careers based off fan relationships and interactions, where the majority of money is made, rather than trying to go viral using streaming. While a useful tool, streaming is only part of an artist's toolkit when trying to earn a living making music.

<u>The Future of the Music Industry</u>

When online streaming and digital music distribution first came into the music industry, there was major disruptions across the board: new companies like Napster, Pandora, and Spotify made their mark, while record labels lost large amounts of money, and piracy was rampant. Today, the industry is beginning to re-settle, and stratification is beginning to re-appear with middle distributors with the most power, and record labels regaining influence. Spotify, Apple Music, and other major streamers have the power of being the "platform" by which other organizations do business, giving them vast amounts of control, similar to Facebook or Google. Similarly, aggregators such as CD Baby, services that allow independent artists to put their music on streaming sites for a fee, are becoming increasingly important as well. While many people thought that Spotify meant the beginning of the end for record labels, they are actually more closely aligned than one might imagine: in 2008, to gain capital and negotiate licensing, Spotify made deal that gave the big five record labels (Sony, Universal, Warner, EMI, and Merlin) stakes in Spotify totaling 17% of the company. Now that Spotify has gone public, they aren't necessarily tied together, but the future remains unclear as to how strongly record labels will influence Spotify in the coming years. As for music streaming and consumer access, the most important, and often overlooked platform for music access is YouTube. While not technically considered a music streaming platform, YouTube is quickly growing as a music access point, either to listen to songs through a video format, or to watch music videos. According to the International Federation of the Phonographic Industry's 2018 global report, YouTube makes up for forty-six percent of all on-demand streaming time, which also includes music streaming sites and video streamers like Netflix. Video streaming revenues on YouTube made $856 million last year through 1.3 billion users, a fraction of per-year revenue compared to platforms like Spotify. Because YouTube takes up such a large portion of streaming time, it will be very important in future years to ensure revenue is captured fairly for artists with content on the site ("Consumer Insight Report 2018").

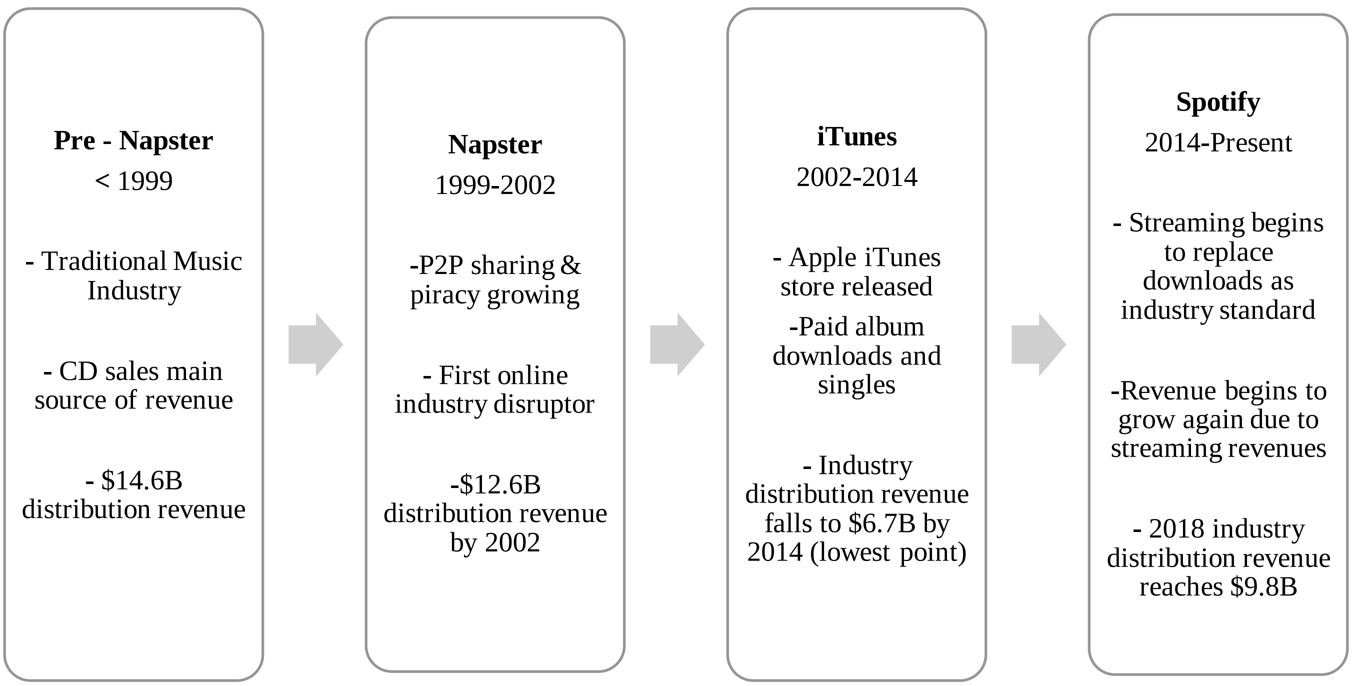
Conclusion

The music industry has always been one of disruption and transition: from the phonograph to Apple Music, consumers and artists alike are in a constant state of flux to keep up with technological and cultural changes within the music world. While music streaming sites are constantly vilified by the media as shortchanging musicians, the questions regarding paying artists fairly while still using the most consumer-effective distribution method is not easily solved. Music streaming sites allow independent artists to be discovered faster and easier than ever before, with a streamlined system built-in to attract new listeners and fans. To fill the gap left by physical CD sales, artists have increased reliance on touring, crowdfunding, and other means of revenue. Streaming revenues are increasing; however, they are still not enough to fully support most artists on their own, largely due to the complex pro rata system in which main streaming sites use to pay rights holders. Because of the inequality of pro rata's revenue payout between "superstar" artists and independent artists, it is recommended that streamers should implement a user-centric streaming model in which the paid-out revenues more accurately reflect an individual listener's habits. In effect, a pro rata payout system rewards superstars for having large followings by paying musicians according to total streamer proportion; in contrast, the user centric model rewards dedicated listenership by paying musicians according to individuals' streaming habits. The most persuading aspect of a user centric model is that is doesn't necessarily harm super star artists either; it would accurately reflect a fan's listenership to Ed Sheeran as much as it would an indie artist.

The music industry is now faced with a subjective moral question: should artists have the right to see that their fan's per-month fee paid to streaming sites only goes to the artists the fans listen to and patronize, instead being split by industry proportion? Likewise, do consumers have an increased responsibility to support artists in other ways such as tours, crowdfunding, and merchandise now that music distribution revenues are far lower than they were in the commodity-era? In a free-market system, there will always be inequality of advantage, especially in a fast-paced and exclusive industry like the music world. In an interview with a Nashville industry professional for this project, the interviewee stated, "In the music industry there will always be winners who don't deserve to be winning, and losers who don't deserve to be losing." While not all the issues surrounding the music industry can be solved, by increasing consumer awareness about online music distribution's effect on independent artists, changes may be enacted that can allow more musicians to make a living following their dream. With some strategic changes to the way music streaming revenues are paid out, and by encouraging alterative artist support methods, consumers can help put “the starving artists” cliché to rest once and for all.

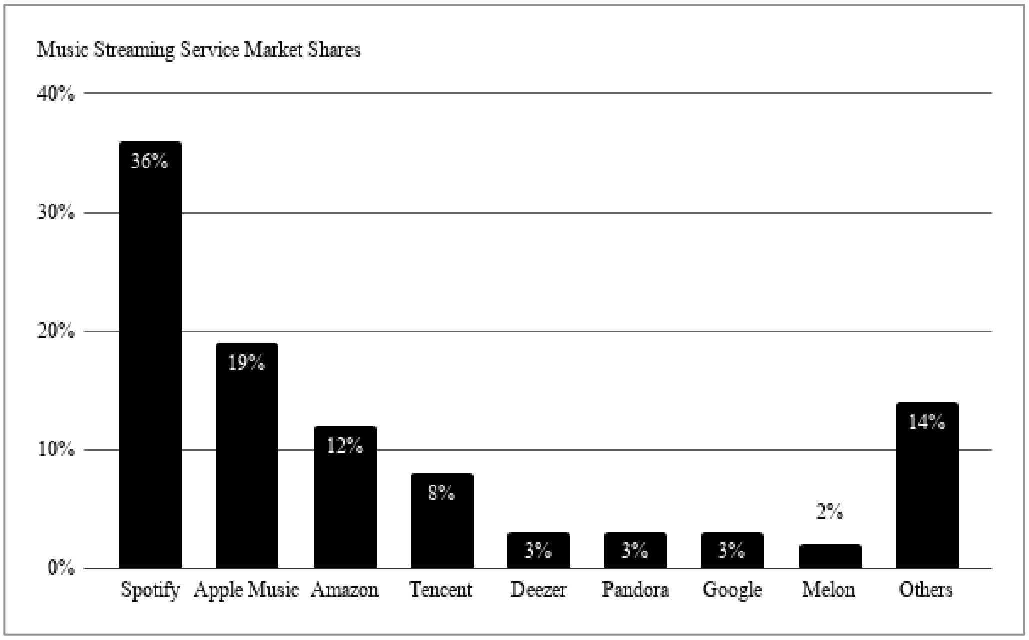
Appendix

<u>Figure 1: Timeline of Digital Music Distribution</u>



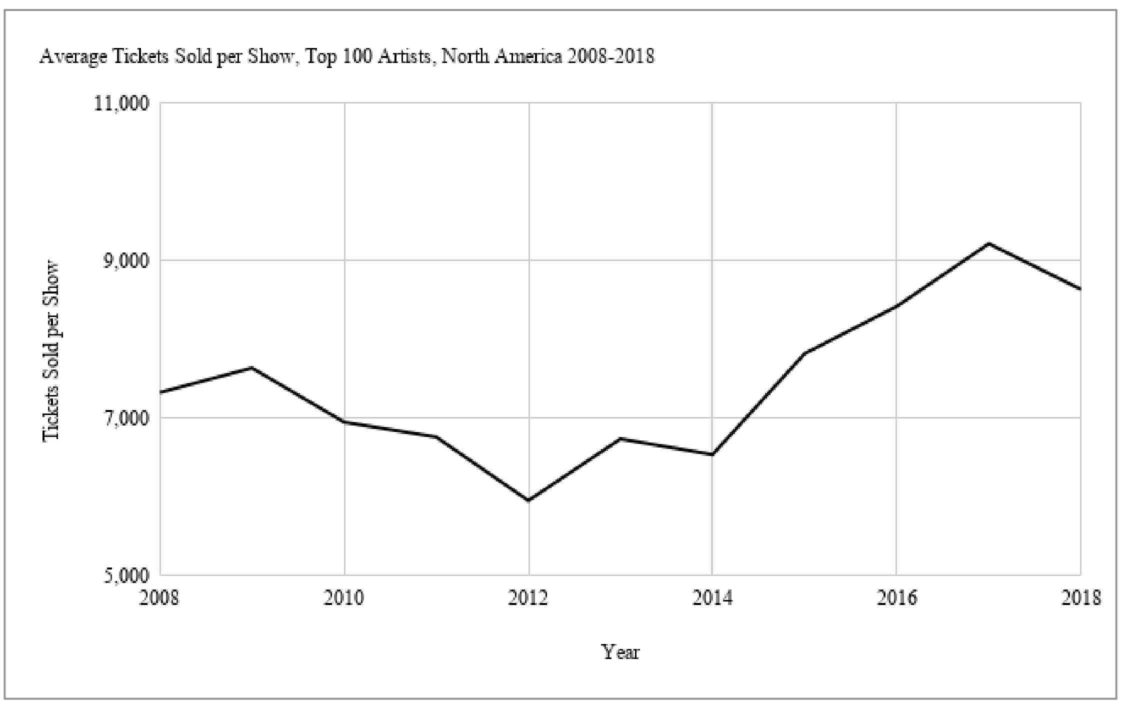
*****Revenue statistics sourced by the Recording Industry Association of America, 2018 (“U.S. Sales Database”)

Figure 2: Market Share of Online Music Streamers



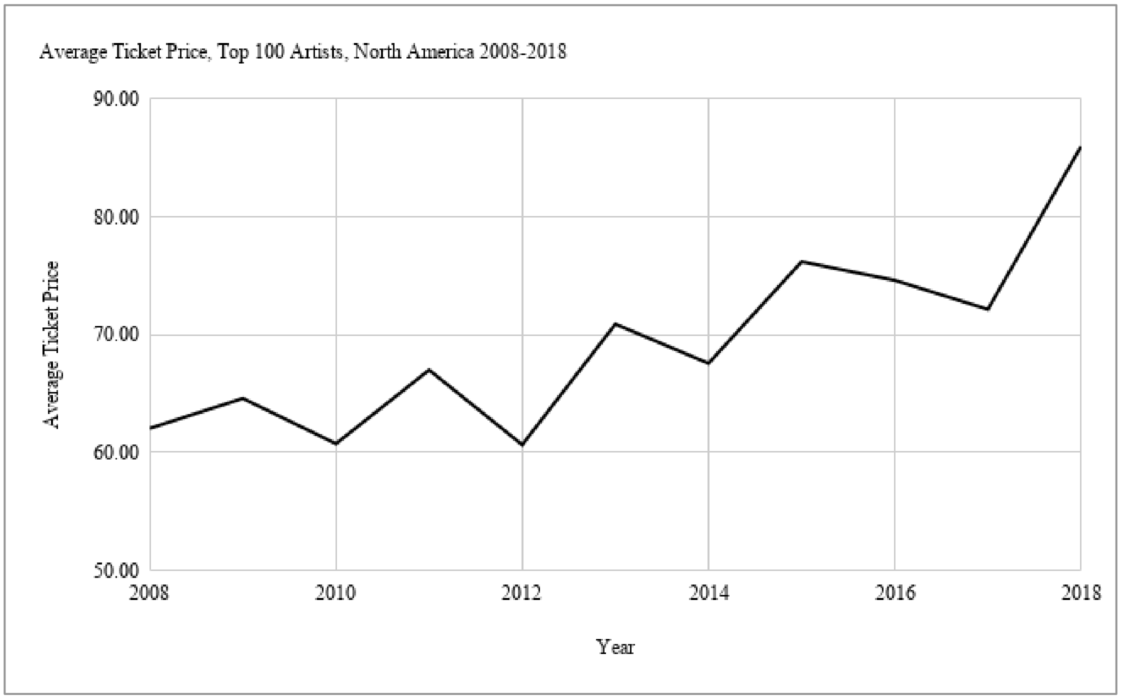
* Statistics for figure sourced from Statista, 2019 data (Watson 2019)

Figure 3.1: Average Tickets Sold per Show, Top 100 Artists, North America 2008-2018



* Data for figure sourced from Pollstar concert industry trade publication ("Mid Year Business Analysis" 2018)

Figure 3.2: Average Ticket Price, Top 100 Artists, North America 2008-2018



* Data for figure sourced from Pollstar concert industry trade publication ("Mid Year Business Analysis" 2018)

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